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Manufacturing, Banking, Railway and Shipping Corporations by the Unionist Government

A CRITICISM AND PLEA FOR  
FREE TRADE

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# The Protection of the Manufacturing, Banking, Railway and Shipping Corporations, by The Unionist Government.

## A CRITICISM AND PLEA FOR FREE TRADE.

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Protection consists in asking one class of the community or nation, that is, the consumers, to contribute to the support of another, usually the manufacturing class, and once the principle is admitted, the policy is often extended, so that it includes the protection of other classes besides manufacturers.

In Canada this policy has gone so far, by reason of the general acceptance of the principle by the public, that the latter have been induced to make large concessions, usually in the form of contributions by taxation, to the manufacturing, banking, railway and shipping corporations, under the impression that it was for the general benefit of the country that they should do so.

This impression has been largely created by politicians whose party funds have always been heavily subsidized by the interested corporations, and it has also been encouraged by the patent benefit of the policy to the particular classes subsidized, while the diffusion of the contributions over the whole community, together with its gradual imposition and the indirect nature of the payment, have deceived the public as to the amount they pay.

The demand upon the earnings of the public, too, were not particularly irksome before the war, but since then the strain upon Canada's financial resources coupled with the uncurbed extension of the principle, has resulted in a startling situation, which promises to plunge the whole nation into ruin unless immediately stopped. It is doubtful, indeed, whether the country can pay the taxes legitimately required by the Government without being called upon to contribute to the support of the corporations.

Unfortunately, the public has been so diligently educated by politicians to believe in protection while the principles of economics are so abstruse that it is difficult to make the public appreciate that Canada is on the brink of a catastrophe.

It is the purpose of this article to explain such principles of political economy as may be necessary, in order that the public may realize the wasteful and uneconomical character of the principle of protection and the dangers of a watered currency, and also to expose the precipitate and dangerous extension of the principle by the present Government.

Before we do this, however, it will be necessary to clear the ground by demolishing a belief, which is almost universal, to the effect that an adverse balance of trade is harmful to a nation, and that patriotism should prompt us to purchase everything possible from our home manufacturer.

## AN ADVERSE BALANCE OF TRADE IS NOT HARMFUL

This belief is such a religion with the protectionists, that Mr. Meighen actually suggested that England's policy of free trade was hastening her towards national bankruptcy, and I propose first of all to examine this conclusion of Mr. Meighen's and see what it is worth, and we will then show how illogical it is to quote the experience of any nation, and in particular the experience of Canada under the National Policy, to justify the policy of protection, because the impression that imports are harmful, and that the economic experience of ourselves and other countries has been all in favor of protection is so general that until we can show first that that impression is erroneous, and, secondly, that even if it were correct it would be illogical to attach much importance to the fact, no reader will be able to approach the principles of economics with an open mind.

Mr. Meighen's solemn warning of the harmful result of free trade in encouraging imports was made during his speech on the Budget of 1920, and he then stated that "you cannot find a year in American history in which they have not sold more than they have bought," and they usually had "a balance in their favor of an immense sum as against the adverse balance of England of about £150,000,000 in every year."

Please note the words, "immense sum." If Mr. Meighen is right in thinking that those circumstances rendered the States rich and England poor, one cannot help wondering how it was that such enormous accumulations on the part of the States, and payments on the part of Great Britain, did not result in piling up gold in the States while draining Britain of every sovereign, and yet I think that before the war it was Great Britain which was the financial centre of the world. I wonder where all her gold came from. Did she learn the secret of Alchemy and convert her iron into gold?

As a matter of fact, this theory of an adverse balance of trade was generally believed in about 150 years ago, but was then exploded by Adam Smith, and an impartial authority such as the "Encyclopaedia Britannica" states that the terms "balance of trade" and "excess of imports over exports" are "simply pitfalls for the amateur and the unwary," and goes on to point out that France, Germany, Belgium, Holland, Denmark, Norway and Sweden all import more than they export, so that all the wealthy and lending nations of Europe are in the same condition as England and Canada, or, in Mr. Meighen's words, "suffer from an adverse balance of trade."

The Right Hon. J. M. Robertson, an ex-cabinet minister of the British Government and an eminent author upon subjects relating to political economy and the science of trade remarked in the *Issue of the Grain Growers' Guide* of November 10th, 1920: "I confess to some chagrin at seeing such a monumental error made current in a great British Dominion by a Dominion statesman. It is painful to have to point out to a minister of Mr. Meighen's status that what he represents as an annual loss was the annual gain of the nation as a trading and investing body. The excess of imports over exports, in a normal peace year is not something that has to be paid for; it is the profit of the nation on its total international dealings; and the profit comes in the form of goods because there is no other way in which it could come. I am talking the A B C of international economics because alas! Mr. Meighen has not yet mastered it. He is bewildered at the outset by the terms "buying" and "selling."

Unfortunately for Canadian finance Sir Henry Drayton the Dominion Minister of Finance holds similar views, and in a speech before members of a Retail Merchants' Association he denounced the extravagant spending of Canada's money in the United States and deplored the big jump in the value of the imports from the latter country and warned his hearers that unless Canada swings the balance of trade in her favor by buying more at home or in Great Britain she is merely postponing the "inevitable end."

Later he told the Canadian housewife that a continuation of the lavish importation of United States goods at the expense of Canadian producers and manufacturers would lead to national bankruptcy and attributed the inflated rate of exchange to "unnecessary purchases, such as fruit, vegetables, eggs and textiles!"

## ENGLAND'S PROSPERITY UNDER FREE TRADE

Now let us enquire into the terrible condition of England during the period mentioned by Mr. Meighen, that is, from the time she adopted free trade in or about 1850 up to the time of the war.

As a matter of fact, England was never so prosperous as during that period, and the only period at all comparable was that following the Elizabethan era, when England's intrepid seamen found new markets for her productions by finding a new world, just as later her intrepid statesmen found new markets for her productions by encouraging her people to purchase, and therefore to trade, abroad.

If only Mr. Meighen had read a moderate amount of English history, he would have learnt that prior to the introduction of free trade in England, the poverty of the people was such that bread riots were general, and the masses could only be kept in subjection by the military, and by sentences of imprisonment and death and the like, while as soon as England began to "suffer from an adverse balance of trade," her poverty fell from her like a dirty garment, and at that period she enjoyed a more rapid rate of increase in population than of any protectionist country, except the United States, which latter country had the advantage of immigration and the rapid growth natural to a young and comparatively undeveloped country.

He would have found that there was a steady and considerable rise in the wealth of her people, which included all classes from the most wealthy to the laboring classes, the latter especially having enjoyed a very considerable increase in their rate of wage and material comforts, and the English protectionists found it quite impossible to deny that this prosperity was the direct result of free trade.

If Mr. Meighen will read that part of Monypenny's "Life of Disraeli," which covers the early part of the period deplored by Mr. Meighen, he will find that during the whole of that period Mr. Disraeli was occupied in trying to convince the dull-witted squires of England that the prosperity which set in upon the introduction of free trade would make it impossible ever to return to the bad old protectionist days, and this attitude of Mr. Disraeli was taken notwithstanding the fact that he had led a revolt of those self-same squires against the leadership of Sir Robert Peel, because the latter had become converted, against his own interests, to the principles of free trade.

This conversion of Sir Robert Peel is as significant as the subsequent conversion of Disraeli. Both were at the head of a Conservative Government supported by the very class which were in a position to profit most by the policy of protection, though here the similarity ends.

Sir Robert Peel was probably the most able of English financiers, with the possible exception of Gladstone, another Free Trader and he was also a man of extraordinary honesty but he became convinced that a financial policy the very opposite to that formerly practised by England and by every other country in the whole history of the world and a policy which could only be appreciated by scholars and theorists, was in fact sound and would relieve the poverty and distress then prevalent and he therefore adopted the policy with the conviction that it must wreck his party and exclude him from power for many years to come.

Disraeli's conversion on the other hand, was caused by the prosperity which set in upon the adoption of free trade and because he knew he could never hold power unless he was prepared to eat his words.

The experience of England should make it clear, therefore that an excess of imports over exports has absolutely no relation to national improvidence as Mr. Meighen suggests but that on the contrary if there are any evidence of a nation's prosperity, the precedent suggests that the "inevitable end" of "extravagant spending abroad" is not national bankruptcy as suggested by Sir Henry Drayton, but the disappearance of poverty and the inauguration of a new era of unbounded national prosperity

## THE EXPERIENCE OF NATIONS FAVORS FREE TRADE.

We are often told by protectionists that the experience of every nation favors protection; but as a matter of fact nothing can be further from the truth, and although it must be admitted that in such matters experience is a most treacherous guide as we will demonstrate more fully a little later, yet for what it is worth it is all in favor of free trade.

For instance, after Australia adopted free trade throughout the commonwealth instead of the previous provincial tariffs, the export of 24 classes of goods from Victoria to the other provinces increased over 147% during the first two years of the greater freedom of trade.

The experience of Germany was similar upon the adoption of free trade within her borders. and it is the irony of logic that this country has been freely quoted by protectionists in support of their theories, but they overlook the fact that prior to the adoption of the Imperial Zollverein every petty little state, and every town and every country district, imposed a high protective tariff between herself and her neighbor, and there were in fact in the Prussian provinces alone 54 different tariff frontiers, so that the Imperial Zollverein advanced her freedom to trade from the confines of a City to the frontiers of an Empire even though it checked its advance there.

These three instances of England, the Australian provinces and Germany are practically the only illustrations in history of the effect of the adoption of free trade, and they are all powerful arguments in its favor, while the only instances quoted by the protectionists are first of all Germany, which I have shown to be entirely fallacious, and secondly a long list of young countries, and they ignore entirely the experience of all other protectionist countries in Europe which have failed to keep pace with England and Germany.

The experience of younger countries is, of course, an entirely different matter, but the rapid growth of a young child does not necessarily imply that he is given the best possible food, because it is natural for young children to grow rapidly, just as it is for young nations to do so, but on the other hand if a man, who has nearly reached his full maturity suddenly gains stature and strength we must suppose that there have been circumstances to cause this. It is clear, then, that the rapid growth of the countries of the new world does not necessarily imply that they have benefited from any particular form of taxation, but on the other hand must conclude that there must have been some substantial reason for the rapid development of England and Germany upon their adoption and extension of the principle of free trade.

We must also be careful not to compare the living conditions of the people in the various countries in support of either protection or free trade, as Mr. Meighen has done, because the living conditions are caused by the pressure of the population upon the capacity to support a population. so that though the capacity of supporting a population in England for instance, is now one hundred times what it used to be in the times of the ancient Britons yet in consequence of the proportional increase of the population there is probably just as much poverty now as there was then, and always will be, as Malthus has explained, unless, indeed, the population grows less rapidly in the future than it has done in the past, or the capacity to support grows more rapidly.

In other words if there is any value in the experience of nations as an argument the benefits or otherwise of any particular policy can only be judged by the difference in conditions immediately the change is made.

If England doubled her capacity to support her population when she introduced free trade, the prosperity of the individuals of the nation would only continue till the population was also doubled.

If we can imagine the introduction of the present resources of civilization of either England or America at the time of the ancient Britons, or of the Pilgrim Fathers it is clear that there would be a tremendous demand for labor and enormous wages would be paid but that extraordinary condition would naturally only last till the population had grown to the present dimensions.

As Canadians however are very firmly convinced that the prosperity of Canada is due to the adoption of the National Policy, we will briefly examine this conviction and see whether it is well founded.

## THE NATIONAL POLICY OF CANADA

One of the first things that must strike a student of the effect of the National Policy is that since its adoption, the volume of imports, upon which a duty was imposed in order to restrict them for the sake of the home manufacturer, has notwithstanding increased from 54,182,967 in 1880 to 441,606,885 in 1913, or more than eight times as much in 33 years, and it is clear that dutiable imports can owe nothing to the National Policy because the whole purpose of the policy is to restrict them upon the ground that they injure the home manufacturer, nor as a matter of fact can it be pretended that either free imports or exports benefit from protection but only the home manufacturer who supplies the home market. In other words Canada's prosperity has grown with her foreign trade, and that cannot possibly be encouraged by a protective duty, but only reduced by one.

It is impossible also for the general prosperity of a country to be caused by a protective duty because its only effect is that one part of the community, the consumer, pays duties to another part, the home manufacturer, and it is as impossible for a nation to become wealthy in that way as it is for a family to become wealthy by some members contributing to the keep of the others, or for an individual to become wealthy by taking money out of one pocket to put it in the other.

It was certainly not the National Policy, then, which was the cause of the rapid increase of our foreign trade, and of our general prosperity, though it may, of course, have been one of the causes of the rapid increase in the prosperity of the protected manufacturers. In fact, it must have been a contributing cause, because any industry or any class is bound to benefit by a tax raised for its benefit upon the general public.

The increase of the foreign trade and the general prosperity of the country must be attributed to other causes, such as the general world-wide prosperity of the time which benefited all countries alike, whether protectionist or free trade or to the rapid development of Canada's resources, such as the vigorous policy of railway construction which opened up Western Canada and the development of the canal systems and of the great natural water power. It was unfortunate for Canada's future that these developments should have coincided in time with her adoption of protection, as it created a false impression in the minds of her people which it is difficult to dislodge.

It must surely be admitted, however, that her prosperity since the adoption of the National Policy is not sufficient of itself to preclude an open mind upon the subject of free trade, and I have said enough to show that to argue from the experience of nations only involves one in an endless wrangle as to the causes of their prosperity or poverty.

## THE LOGIC OF FREE TRADE

If the experience of nations then is unreliable, politicians will want to know what argument is reliable, because they never use any other, and it is just here that it is necessary to come to an understanding, because the whole case of free trade really rests upon a proper understanding of the science of logic, and it is just this difficulty which has caused the general public to submit to a policy which is chiefly, if not exclusively favorable to wealthy and influential corporations while excessively wasteful and oppressive upon the general public, and unfortunately politicians go no deeper than the desires of the electorate and certainly would never attempt to deflect those desires if it involved an elaborate education of the public to convince them that a policy, which is exceedingly profitable to party funds, is not in fact for their own advantage.

This article is written for that purpose notwithstanding, and it is, therefore, necessary to explain that logic knows two methods of proof, the inductive, which proves by previous experience or precedent, and the deductive which deduces or draws conclusions from other facts or rules already admitted.

Now logicians and political economists agree that the inductive method or experience is entirely unreliable to use for the purpose of political economy, and that the proof of the laws of commerce must be by the deductive method only, or, in other words, must be argued from general laws, though induction is often used for purposes of illustration.

The reason for this is that you cannot conduct exact experiments of the effect of free trade or protection, since the effect cannot be isolated, or, in other words, the prosperity or poverty of nations can be attributed to other causes besides that of a tariff, as we have already shown.

Now the laws from which political economists draw their conclusions have never been controverted, but only ignored, and this has been done the more safely because it is almost impossible to induce anyone to take an interest in abstract rules even when educated to appreciate them, and unfortunately this is not the case with the great majority of people.

This is not to say that they are not, therefore, true. The laws of Euclid and of Astronomy are abstract, and therefore unpopular, but no one disputes their accuracy, though if they were of any consequence to the prosperity of the public and had to be explained to them, no doubt attempts would be made to prove the conclusions of these sciences by the inductive method, even if it were hopelessly inaccurate and only occasioned a wrangle over facts, while proof by deduction is incontrovertible.

### AN APPEAL TO POLITICAL ECONOMY

Now let us consider the laws upon which political economists base their conclusions. They are simply these:

1. That merchants do not give their goods away, but exact an equal return when they trade abroad;
2. That the total purchases must equal total sales, or in other words the total imports exchanged in trade must equal the total exports so exchanged;
3. That, therefore, if the total value of the imports is reduced by a duty or otherwise, the total value of the exports must be reduced by an exactly equal amount.

In other words, if a foreign merchant sells us goods we are bound to ship him some of our own productions in exchange, so that the result is, the more we import the more we export, and if we restrict our imports by a duty we must to that extent inevitably spoil the market for our own productions.

It is true that services, such as shipping or loans of money or interest on loans, are sometimes given in exchange, but that does not alter the general proposition, because a nation is just as anxious to sell its services as its goods, and can find a demand for them by importing goods. These valuable considerations, however, which are sometimes given in exchange, partly explain why the imports and exports of a nation do not exactly correspond, and the student is referred for a fuller explanation to the "Encyclopaedia Britannica," under the heading of "Balance of Trade."

If farmer Brown exchanges yearly with tailor Jones twenty bushels of wheat for two suits of clothes, but one year diverts some of his time, usually devoted to farming, to making one suit of clothes, and so only requires one suit from tailor Jones he naturally refuses to give twenty bushels of wheat to tailor Jones for that particular year, but reduces the usual quantity to ten bushels.

Farmer Brown has succeeded in halving his imports, but by so doing he has lost a market for ten bushels of wheat, and lost trade by making clothes when he was better fitted to grow wheat.

Protectionists seem to lose their heads as soon as they think in terms of international trade. No individual trades abroad except to his own advantage and surely therefore the total of individual trades must be an advantage to the total of individuals comprising a nation.

Mr. R. B. Bennett, K.C., Minister of Justice of the present Government, in a recent speech at Edmonton, after blaming someone, not stated, for the decline in value of the Canadian dollar, asks: "What will it be during the



next three years if we take down the bars and let the United States unemployed start to work to supply our needs?" If we were reasoning with a man about his own private affairs we should say: "His needs would be supplied," and think that a sufficient answer, and why should not the same argument apply to a nation? Why should Mr. Bennett deplore the fact that our needs might be supplied? Protectionists seem to think it a crime if we receive our daily bread from anyone except from their own particular favorites, who have to be heavily subsidized to enable them to do so.

We are often told by protectionists that they believe in the principle of free trade but that if every other nation closes its doors to us we are forced to adopt the same policy towards them.

Sometimes this argument takes another form, and we are told that if we lower our tariff wall to the States, the tariff wall of the States against us will prevent us from reaping any advantage from it, while we shall be flooded with cheap American goods.

These arguments and others of a similar nature, such as the argument that free trade might be good for England, but not for us, only show that their exponents do not really understand the principles of free trade, because trade is like the water in two barrels with a connecting pipe between them, and you cannot lower one without lowering the other, or, in other words, buying necessarily involves selling, so that if our markets here are flooded with cheap American products, we shall have not only the accumulated benefit of a large number of good bargains, which would never have been made if they were not to the advantage of those of us who bought them, but the importation must also involve the purchase from us of goods of a similar value, so that the benefit is twofold.

It is quite true that the tariffs of other nations are harmful to us, but they are at least equally harmful to them, and we cannot remedy the matter by duplicating the injury which they do to themselves and us, by imposing one upon ourselves.

Beyond the fact that we can only find a market for our productions by importing the goods of other countries, there is a distinct economy in exchanging our goods for those of other nations. It is hardly to be conceived that our merchants would exchange their goods for the goods of other nations without some advantage in so doing, but the nature of the mutual advantage of exchange will be illustrated.

Let it be supposed that England can manufacture 15 tons of iron for a certain unit of expenditure of land, capital and labor, and can produce 250 bushels of wheat for the same unit, also that Canada can only manufacture 10 tons of iron at the cost of the same unit, but produces 350 bushels of wheat. In such a case, if each country supplied its own wants, four units of cost would produce 25 tons of iron and 600 bushels of wheat, but if England manufactures a double amount of iron, so that she can supply Canada with her needs, and Canada produces a double amount of wheat in order to supply England, the same cost will produce 30 tons of iron and 700 bushels of wheat, and there will, therefore, be a profit on the latter arrangement of 5 tons of iron and 100 bushels of wheat, which can be divided between the two countries. In other words, it is more profitable for the Canadian farmer to trade his products with a country where his necessities are produced the cheapest than with a certain class of his own country who can only manufacture for him if generously subsidized.

### THE FUNCTION OF GOLD

Now, no doubt, Mr. Meighen or Sir Henry Drayton will reply that they admit imports would be a benefit to this country if we only paid for goods imported by goods exported, but that the danger is that we pay for those imports by currency or gold. As a matter of fact, that argument has been expressed or implied by them, and other members of the Government, over and over again.

Such a contention is simply ridiculous, but a full explanation as to why

it is so would involve a long and abstract discussion as to the function of gold, and it is impossible to do so within the limits of this article.

It is sufficient here to remark that gold serves two very distinct purposes, first, as a medium of exchange; and secondly, as a standard of value, and these two functions unfortunately have been confused by Mr. Meighen and Sir Henry Drayton.

When we purchase goods from abroad, we compare their value to the common standard of gold and decide that they are worth, say, \$10, and we send a paper memorandum of that fact in the form of a bill, draft, cheque, money order, or some other form and then when goods are purchased from us, paper is sent to us in the same way. No gold or coin passes, but from time to time a balance is struck between the foreign and the home banks, and the debts, which are merely evidenced and recorded by the paper passing, are set off one against the other, and if there is a balance on either side the exchange will favor one country, and there will, therefore, be an inducement to the merchants of that country to purchase abroad, which they will do till the balance is adjusted.

As a matter of fact, gold nowadays very rarely serves as a medium of exchange, as we should know in Canada, who very rarely see a gold coin. It has been driven off the market by a cheaper commodity in the legal currency which has been freely watered by the Government and banking corporations. Nor is gold shipped abroad to pay for what Mr. Meighen considers as an "adverse balance of trade."

During the whole of that period when Mr. Meighen says that England's imports exceeded the value of her exports to the extent of about £150,000,000 a year, her stock of gold kept on increasing, and during the period of 20 years between 1819 and 1910 her imports of gold rose from 23½ millions to 54 millions per year so that she obviously did not export gold to pay for the excess, and all lending nations of Europe are in the same case, and this should be a sufficient answer to any argument that we might buy imports with gold.

But let us push the argument a little further, and let us presume for the sake of argument that the millenium desired by Mr. Meighen and Sir Henry Drayton is effected, and that Canada's exports exceed her imports, and that Canada receives gold for that "favorable balance of trade."

It is obvious that in such a case gold would gradually become plentiful in Canada and proportionately scarce in the countries to whom Canada's exports are sold.

Now it is obvious that the more plentiful gold becomes, the cheaper it will become. If gold became as plentiful as pebbles, even Mr. Meighen would not be greatly elated at an increase in its importation, and as a matter of fact gold is only valuable and desired because there is a scarcity of it.

But as the value of all other goods are compared to gold, the cheaper gold becomes the more owners of other articles will require of it in exchange for their goods, or, in other words, articles will become dearer as gold becomes cheaper.

The consequence of this will be that the home merchants will be reluctant to take gold, which is becoming so plentiful and worthless in Canada; while the foreign merchants will be reluctant to part with their gold which is becoming so scarce and valuable in their countries, while our merchants will be anxious to buy the cheap goods abroad and foreign merchants will be reluctant to purchase our high-priced productions.

In other words, foreign merchants will prefer to take our gold instead of our home productions, which we are trying to export, and so gold will find its true level again just as the water in the two connected barrels must ultimately find its level through the connecting pipe, and the foreign market for our own productions will drop as our market for the foreign merchant drops, so that our exports ultimately suffer.

Sir Henry Drayton himself recognized the ill effects of cheap currency in Canada when he complained of the depreciation in value of the Canadian dollar in the United States.

He attributed that fact to the Canadian housewife who purchases "unnecessary" goods "such as fruit, vegetables, eggs and textiles," from the States, and he warned his audience that a continuation of the lavish importation of United States goods would lead to national bankruptcy. Mr. Bennett has also recently warned the electorate that if we increase our purchases in the States the value of the Canadian dollar will still further depreciate.

Now it is surely obvious that if the Canadian dollar has fallen in value, it is because it is more plentiful, and therefore less desired, and not because it is more scarce and therefore more desired, and that the best way to correct matters is to dispose of some of this cheap commodity to the States for their goods.

Do Sir Henry Drayton and Mr. Bennett really wish to maintain that if the importation of goods from the States were to continue till the country be drained of gold, that it would become cheaper all the time? As Euclid says, the presumption is absurd, and the opposite must be true.

### THE PROTECTION OF THE BANKS AND GOVERNMENT RESPONSIBILITY FOR THE DEPRECIATED CURRENCY

As a matter of fact, Sir Henry Drayton is trying to make the Canadian housewife responsible for his own misdeeds. The Canadian dollar has depreciated in value because the present Government has persistently watered the currency. In 1912 the total notes in circulation amounted to \$209,362,037, while the gold reserve amounted to \$98,802,395, but in 1914 the Government passed legislation enabling it to make advances to the chartered banks in the form of an issue of Dominion notes, but which could be repaid by them by their own notes, and also authorized the chartered banks to increase the issue of their own notes to the extent of 15 per cent., and the consequence was that in 1920 the total issue of notes rose to \$536,702,419, while the gold only increased to \$104,399,355 or, in other words, the gold reserve fell from 32 per cent in 1912 to 16 per cent in 1920.

This is enough to shake the credit of any country, but in order to make assurance doubly sure, the Government prohibited the public from redeeming this depreciated currency from the banks. This has always been a sure way of demoralizing the credit of a country, and it is no extenuation to say that the same mistake has been made in England. It is a practice condemned by economists without exception, and their deductions have always been confirmed by the experience of history.

All these transactions are a direct profit to the banking corporations at the expense of the public, but we cannot expect anyone to take our money at the old value when it has been so freely watered.

Sir Henry Drayton may tell us that there is ample security for the full issue of paper money, but if he does so, it will be because he fails to recognize a principle of political economy to the effect that plenty will lower the standard of value whatever the security.

The French Government made the same confusion as to the functions of gold at the time of the Revolution, when they made the land of France security for a huge issue of paper money, but notwithstanding the security the national currency was so depreciated that it was practically valueless and a big parcel of notes was necessary to pay for a meal.

The same thing is happening in Russia and Germany to-day, and if Sir Henry Drayton wishes to follow their example a Canadian workman will ultimately be unable to pay for an ounce of tobacco with his week's wages, and will be forced to starve unless strikes all over the country adjust his wages to the depreciated value of the currency.

Then when an attempt is made to restore the credit of the country and deflate the currency, there will be lock-outs by the masters, because they say that they cannot make a profit and carry on business and pay the existing wages and strikes by the workmen to maintain the existing wage level.

Those have always been the consequences of any juggling with the currency of a country throughout the history of the world regardless of the fact

that the true nature of money was detected by Anacharsis, the Scythian, about 2500 years ago, and confirmed and emphasized over and over again by the experience of Governments who have attempted to debase the coinage, but statesmen never seem to learn this lesson of history.

We are suffering from the watering of the currency by the present Government more than the public realizes, and more than the mere depreciation of our currency in foreign money markets suggests. The result is a general lack of confidence and a disinclination on the part of foreign merchants to trade with us with a resulting chaos of prices.

A reluctance of purchasers to trade with us must lower the price of commodities which we have to sell, such as grain and stock, while a reluctance on the part of sellers must raise the price of commodities which we have to buy, and it is only natural that this should be only made apparent some time after the damage is done, because merchants take some time to realize that the old value of the currency no longer holds good.

The Government, therefore, is responsible for the fact that we can't sell our grain and stock, and yet have to pay high prices for everything we have to import, and Sir Henry Drayton is either grossly ignorant or grossly dishonest in attributing the depreciated currency to the Canadian housewife.

### TARIFFS FOR REVENUE ARE INDEFENSIBLE

It is often urged that it is impossible to abolish duties on imported goods because we need the revenue, but as a matter of fact, protection is more impossible to defend for revenue purposes than for any other purpose.

First, it has the disadvantage of defeating its own purpose, because it is clear that if a duty is imposed with a view to protecting the home manufacturer the more successful it is in doing so the less goods will be imported, and therefore the less duty paid, and if protectionists were able to achieve the natural end to their desire, all such goods would be manufactured in Canada and no duty would be paid.

But beyond that it is extremely wasteful in its operation, as it is clear that only a certain proportion of a duty placed upon each article finds its way into the exchequer, and the balance serves to fatten the bank roll of some manufacturer. For instance, let us say that in consequence of a duty of \$3.00 on every pair of shoes, three-quarters of the shoes worn in Canada are manufactured here. Now, in that case the price for every pair of shoes purchased will be raised to the extent of \$3.00 per pair, and when a pair is purchased which was made in the States that extra price of \$3.00 will actually go to the Government exchequer.

If, on the other hand, the shoes are made in Canada, the duty will go to the Canadian manufacturer, in fact that is why it is called his protection, and if the proportion of shoes made in Canada is three quarters, only a quarter of the taxes will be received by the Government, or, in other words, the Government taxes us \$1.00 in order to collect 25 cents, and it is, therefore, an exceedingly wasteful and uneconomical tax. •

The other three quarters of the tax, which is wasted, so far as the national revenue is concerned, goes to bolster up some industry which could not otherwise pay for itself, and whose existence is only maintained at the expense of productions which are natural to this country, and of which we would have a surplus to export if the Government would only find a market for them by allowing the importing of the full quantity of boots and other protected goods required.

It is clear from the foregoing that a protective tariff on imports cannot be justified for revenue purposes, and that when a farmer pays an increased price on almost everything he purchases he is not performing a patriotic duty by paying the country's revenue and increasing the trade of Canada, but, on the contrary, if he purchases protected goods he is only supporting some manufacturer and is actually damaging the country by restricting its trade and robbing it of its revenue.

The Government by repeated borrowing and other measures has postponed the evil day when it must disclose to an outraged electorate the burdens of taxation which must be carried in future, but, like the spendthrift living on his capital, the time must come when that disclosure must be made.

No doubt they hope to get the elections disposed of first, but when that time arrives every man and woman will stagger under the burden of taxation. Is it likely that they will consent to carry the Manufacturing, Banking, Railway and Shipping Corporations, in addition to paying the necessary Government taxes, when the national debt is nearly six times its pre-war figure?

It is more important to Canada that the public should buy foreign goods and pay the duty into the national exchequer than they should make some rich manufacturer richer. The latter calls for higher duties all the time, but does not desire the duty to be paid into the national exchequer, but to himself, and his demands for higher tariffs deserve to be met by a boycott of Canadian protected goods in favor of the purchase of foreign goods, which will result in the duty finding its way into the national exchequer for the relief of taxation and general benefit of the whole nation.

The manufacturers cannot be allowed to receive a portion of the national revenue, but on the contrary must shoulder their share of the burdens of taxation, and the portion of the tariff which they receive must be diverted into the national treasury. It is idle to ask what we can do for a revenue if the protective duties are removed, because it is only the protective element which is objectionable, and a straight duty imposed on the home manufacturer as well as the foreigner would yield a greater revenue, and not a less.

But there is another aspect of the matter to be considered. If our politicians are wedded to this idea of obtaining the national revenue by raising the tariff, the greater the national extravagance the greater the tariff, and therefore the greater the benefit to the protected manufacturer. In other words the poorer the general public, the richer the manufacturer, becomes, and it should be carefully considered whether under those circumstances it is wise to leave the national finances in the hands of protectionists whose direct interest it is to be extravagant?

#### THE PROTECTION OF RAILWAY CORPORATIONS

But there is another form of protection which is almost ruinous to Western Canada, and that is the increase in the freight rates.

This increase may be needed by the Canadian National Railways, but in order to enable them to pay their way all the private railway corporations are also allowed to raise their rates.

The total earnings of all railways for 1910 amounted to \$382,976,901, while the earnings for the National Railways alone, including the Canadian Northern the Grand Trunk Pacific, and other national lines, only amounted to \$96,548,823, so that the national lines only earn about 25 per cent. of the total freight, so that it stands to reason that out of every \$100 paid in an increase of freight by the public about \$75 goes into the pocket of private corporations.

Of course, that sort of thing is the very essence of protection, but in this particular case the cost of the protection to the public was bound to be revealed through the railway returns, and was in an altogether different case to a manufacturing corporation, which is bound to file no returns as to the amount of protection; or, in other words, the tax it receives from the public.

Besides the deficit for 1920 is estimated at about one hundred million dollars, and if this were to be raised by an increase in freight it would fall almost entirely upon the people of the West, at a cost to them of about \$35 for every man, woman and child, or, say, \$100 for every wage earner, and this for the National Railways alone, or, say, \$300 for the total freights payable to all railways by each wage earner in the West for one year.

Now, of course, it is an indirect tax, and the public can be fooled quite a lot as to what it pays in indirect taxes, but probably not quite to the extent of \$300 a year, and it must have occurred to the Commissioners that the public might make a mild protest if it was asked to pay so great a price for the in-

competence of the Government in the taking over and operation of the Canadian Northern and Grand Trunk Pacific Railways, so they endeavored to justify their judgment, not upon the needs of the national railways, but upon the possibility of a loss to the Canadian Pacific Railway, and asserted that "all the calculations as set forth in that judgment are based on the figures submitted by the Canadian Pacific Railway."

They admitted that that statement was "unsatisfactory," but found notwithstanding that "According to the statement furnished by Mr. Beatty, president of the Canadian Pacific Railway, assuming that the wage award is adopted, and assuming that the full increases asked for are granted, their deficit would be \$62,179 at the end of the present year," and they declared that they considered it a "national necessity that the Canadian Pacific Railway, at least, be kept in a healthy financial condition."

The irony of the judgment lies in the fact that the wage award has not yet been adopted, but of course that must not be expected to effect any reduction in freight. The Commissioners are too impartial to the claims of the farmers and wage earners for that.

If the commissioners think that it is one of their duties to keep the Canadian Pacific Railway in a "healthy financial condition," the shareholders must feel that they are a favored class indeed, and must be gratified by the conviction that their common stock alone is a better security than Government bonds.

I suppose that if a humble farmer had applied for relief upon the ground that the increased freight would ruin him, the Commissioners would not have considered it a "national necessity" to keep him in a "healthy financial condition," and he would have been told not to squeal till he was hurt.

As a matter of fact, hundreds of farmers upon the western prairies are apt to be entirely ruined by the freight rates, and to lose not merely their income for one year, but their entire capital as well, but they go without redress because the Commissioners and Government fear that if the Canadian Pacific Railway were ever to raise their wages, which they have not done yet, it might suffer a paltry loss of income during one year of operation.

The Commissioners mentioned two circumstances and two only to show why they considered it a "national necessity" to keep the Canadian Pacific Railway in a "healthy financial condition." One was that the Canadian Pacific Railway had lent the British Government \$40,000,000 during the war, we must suppose at a fair rate of interest, and the other was that their wealth was so considerable "that they have actually put into the road out of reserves, proceeds of land sales, etc., \$130,000,000," and "during the present fiscal year, they have already expended more than \$8,000,000 out of reserve for the construction of branch lines in Western Canada."

The Commissioners admitted that the Canadian Pacific Railway could have borrowed the money, but thought that when a corporation was so wealthy that it was able to do all this out of their reserve, set aside out of superfluous profits in the past, they should be encouraged by extra financial assistance.

The only conclusion possible is that the best way for the public to obtain relief from the Railway Commissioners is to make a great parade of wealth and prosperity, and show that they do not need financial assistance. Is there no farmer who is sufficiently wealthy to make the application for relief?

In the face of this extraordinary judgment it is necessary to remind the reader that the government would naturally prefer to raise \$25 at a cost to the public of \$100, if they can shift the burden of responsibility upon the shoulders of others, especially if those shoulders mainly belong to Westerners who have never been crazy over protection which they never get, but only pay for, and may therefore be expected to vote against protection in any case. Besides most of the extra \$75 goes to the Canadian Pacific Railway, which is a popular pet of the Government and probably contributes largely to the party funds.

The public have a right of appeal from the Railway Commissioners to the Governor in Council, or, in other words, to the Government, and this appeal was naturally taken by a confiding public.

This put the Government in an awkward position, because the judgment must naturally have been very popular with them, and yet they wished to avoid

responsibility for it, so they made a really diplomatic decision and referred the matter back to the Commissioners.

They did so upon the ground that the Board, in addition to the advantages of hearing the evidence, of following the cross-examinations, and of the experience of the members of the Board, had "at its disposal a permanent staff of expert officials, trained in the various branches of the Board's work and able to advise the commissioners," and they claimed that "to take upon themselves to weigh the evidence adduced and substitute their own judgment for the judgment of the Board upon the questions of fact arising on the issue and to be determined upon such evidence, would defeat the purpose for which the Board of Railway Commissioners was created and would in the end be highly prejudicial to the public interest!"

Now in the first place the evidence upon which the Board based their judgment was this "unsatisfactory" statement of the Canadian Pacific Railway, and if they required any expert assistance to help them the staff of the Board of Railway Commissioners was there to help them just as much as they were available to the Board, and they had besides the whole staff of the Government Railway Department to help them and the whole world besides if they had wished.

They had also the assistance of the members of their own court, including such legal gentlemen as the Right Hon. Arthur Meighen, the Right Hon. Arthur L. Sifton, a former Minister of Railways and judge, Sir James Lougheed and the Right Hon. C. J. Doherty, together with other able gentlemen, such as Sir George Foster, the Hon. C. C. Ballantyne and the Hon. B. Wigmore, all of whom sat upon the Court of Appeal.

Was not such a Court of Appeal qualified to reconsider a decision of a Board composed of such eminent members, as the present Board of Railway Commissioners? Perhaps the Government was impressed and over-awed by the outstanding ability displayed by the Commissioners' judgment?

But beyond all this, why did the Act give an unconditional power to the Government to "vary or rescind any order, decision, rule or regulation of the Board," if the intention was that it should not be used?

As a matter of fact, although the Act gives them power to "vary or rescind any order, decision, rule or regulation of the Board," it does not give them power to refer a matter back to the Commissioners, probably upon the ground that the Government should be held ultimately responsible.

Even the subservient Board recognized this, but thought it "unnecessary to deal further with the question of the legality or otherwise of the course followed by the Governor in Council (the Government) in referring order 308 back to the Board."

The Government, however, did refer the matter back to the Board, "with the suggestion, in no sense of the word an order," as even the Board was careful to point out, that the Board should again consider its decision upon the ground, together with three other less important points, that the Board should not take into consideration the requirements of the Canadian National railways.

This evasion was really very clever because the Commissioners had already made it perfectly clear in their judgment that they based their decision not upon the need of the National railways but upon the supposed need of the Canadian Pacific Railway, so they must have had little fear that the Commissioners would alter their judgment, and, of course, they did not.

Nor was there really much risk that the Commissioners would refuse to be made the "goat" though they are supposed to be as impartial as the judges on the bench. All the Commissioners owe their appointment to the Government or their Conservative protectionist predecessors, and might or might not be re-appointed by the present Government at the end of their term, and only those who have witnessed it can realize what the influence of political patronage can do in warping the judgment even of honest men. It must be remembered, too, that the Commissioners might conjecture that the Government would dislike to offend the Canadian Pacific Railway and risk a loss of contributions to the party funds by failure to remove an objectionable Commissioner.

There was an impression while the Commissioners were still Liberal appointments that the Board was intended to protect the public from the railway corporations, but the latter, by a little skill, have converted both Board and Government into a smoke screen behind which to conduct their nefarious operations.

The Government, therefore, must be held to be directly responsible for the increase in the freight rates, and the judgment order of the Board is, as a matter of fact, entirely consistent with the policy of protection, and they must have revelled in such an excellent example of the benefit of an indirect protectionist tax, which the public would hardly realize it was paying as a tax, or realize that the Government was responsible for it, and yet which involved a rake-off of almost 75 per cent to a Government pet and generous contributor to the Unionist party funds.

#### THE PROTECTION OF SHIPPING CORPORATIONS

Besides protecting the manufacturing, banking and railway corporations, the Unionist Government made a new departure during the war, and under the camouflage of public necessity, subsidized the shipping interests by overwhelming them with all sorts of fancy schemes by means of which seventy million dollars, or more than \$7.50 for every man, woman and child in Canada, were spent by a past president of the Canadian Manufacturers' Association, and ships constructed at a cost of \$192 a ton are now valued at \$25 a ton, and are probably not saleable at that, but this little departure has not been fully investigated, and we may have under-stated the case

#### AN ACCUSATION OF THE GOVERNMENT

The Unionist Government, therefore, has been guilty during its term of office, first of all of watering the currency, not only by their own issue of Dominion notes, but also by making advances to incorporated banks and allowing them to issue notes, and thus wrecking the credit of the Dominion and causing a regular chaos of prices; secondly, of enriching the Canadian Pacific Railway upon the flimsiest evidence that they might suffer an infinitesimal loss for one solitary year; thirdly, by enriching manufacturing corporations upon the plea that we need the money for revenue purposes, and fourthly, by enriching the shipping corporations by foisting a new industry upon us on the plea of public necessity, and these corporations have all been generously provided for upon the plea that the country is poor and rapidly approaching bankruptcy!

Sir Henry Drayton is quite right, and the present condition of affairs will certainly lead to national bankruptcy if it is allowed to continue, but it is a poor way to improve the financial condition of Canada by pouring a large proportion of the taxes wrung from the people into the coffers of banking, railway, manufacturing and shipbuilding corporations

Sir Henry Drayton blames the Canadian housewife for the condition of the national finances because she dares to make "unnecessary purchases, such as fruit, vegetables, eggs and textiles" from the United States but it is not the Canadian housewife who is responsible, but the gross mismanagement and corruption of the Government, and it is imperative that the present condition of affairs be immediately ended.

This will never be done till every man and woman is made to realize that extravagance and the resulting high taxation are the very life-blood of the big corporations. The banks meet a scarcity of money by a request for permission to further water the currency. The railways think the huge deficit on the national lines a reason for asking for an increase of rates, and the manufacturers meet the need for more taxation by asking for higher tariffs, and they all emphasize their demands by deluging the Unionist Party with election funds to say nothing of direct bribery and corruption. I wonder what it means to the party funds if a Railway Commissioner is appointed acceptable to the Canadian Pacific Railway Company.

Under these circumstances, can we safely give the present Government a renewal of our confidence and elect them for another term of office? If we



do so, we may well be ruined, and we shall only have ourselves to blame, unless every man and woman strains every effort to ensure their overthrow.

### FREE TRADE AND LABOR

Before we dismiss the subject of protection, however, we must consider the position of those who innocently earn their living in the employ of protected corporations, and the artisans and those who work with their hands, gathered in the manufacturing centres, will want to know how the abolition of the tariff will affect them.

They will claim that they obtain their living from those same corporations who are protected, and that even though the latter are enriched by a tax raised on the general public, yet they will say, is not there a danger that if the tax is abolished the factories will disappear or transact their business on the other side of the border?

It is often asserted by Protectionists that without a tariff high wages would be impossible, because the products of cheap foreign labor would undersell the products of highly paid labor in the home market, but the argument will not bear examination, though, of course, if a nation decides to work for eight hours instead of twelve, other things being equal, its wealth will be only  $\frac{2}{3}$  what it otherwise might be.

But if Labor trades the product of its eight-hour day for the products of a twelve-hour day, it will be none the worse off on account of the trade. It is true that either the harder workers or their employers would have the advantage of their longer days, but the very fact of its increased quantity puts them at a disadvantage in a trade, while its importation must necessarily involve the export of the products of more highly skilled labor, or of labor better served with expensive machinery.

In other words, a trade does not make the eight-hour laborer any poorer. On the contrary, it is bound to be to the advantage of himself, or his country, or surely the trade would not have been made.

If a workman has to pay 50 cents for his mid-day meal, and then a Chinaman enters the town and charges 35 cents, he may rob a native of a job, but he will raise the wages of every other workman 15 cents a meal, say, 90 cents a week. A job may be lost but the advantage lies in the trade.

In other words, cheap labor at home is damaging to labor, because the foreigner will always earn more for his employer, and will be engaged in preference to the higher-priced native, but the native laborer cannot in any case obtain the job of the cheap foreigner, when the latter is in his own country, so that he might as well let the latter work for him and trade his superior productions for the foreigner's sweated productions.

Even when a foreigner is engaged at home, it is only the immediate job, of which he is robbing native labor, but immediately the foreigner exchanges that product, native labor for whose produce it is exchanged obtains the usual advantage of a trade. In other words, there is never a loss when a trade is made for sweated goods, the loss is only to the man sweated and those he is keeping out of a job.

If Labor then, cannot get the foreigner's job, it is still to his advantage to trade the foreigner's labor for his own.

It is a curious anomaly of protectionist politics that Labor votes with protected corporations who employ foreigners at home and who discourage a trade of goods made by foreign labor advantageous to native labor. They want concessions from their boss, but follow submissively behind his triumphant chariot to the polls. It is not by such means that labor can obtain a greater measure of independence and self-respect, or obtain better living conditions.

Besides all this Labor with every other citizen must benefit by the general prosperity, and if the farmers and other classes, who produce to export, benefit from free trade, that fact will enlarge the markets for manufactured articles, while the very imports will increase the demand for all productions and not merely for farm produce, while, on the other hand, the tendency

of protection is to confine the market for the production of labor within the narrow boundaries of an impoverished country.

If the protectionists push their arguments to their logical conclusion, we shall have a condition of affairs such as existed in the German Empire before the introduction of the Imperial Zollverein, when the condition of labor was almost that of a serf, and every Province may eventually protect itself against every other Province, and every town and country district against the next town or district till it ultimately resolves itself into a trade between Man Friday and Robinson Crusoe, and we, like they, will have to dress ourselves in skins, because no one can afford to buy the productions of labor.

Surely Labor must benefit by every extension of the market for his productions. Let the artisan consider the comparative wealth south and north of the boundary, and then ask himself why it is that for every factory north of the boundary line there are a hundred to the south, and a moment's consideration will convince him that the only reason is that the manufacturing centres to the south have a vastly larger market, while those to the north are cramped and cramped in a limited market by the boundaries of the tariff wall.

If that wall can be demolished it must result in an immediate and tremendous increase in the demand for the productions of their labor, and must put them in a favorable position to better their condition.

It is quite true that the full effect of this condition cannot be effected without a similar movement to the south of the line, but it must be remembered that it is a poor way to lower the American tariff against us by raising ours against her, and will be no more effective than an exchange of blows is effective in stopping a fight. If persisted in, the policy of exchanging blows can only result in the triumph of "might" at the expense of "right," with humiliation as the lot of the weaker contestant and a brutalized conscience as the prize of the victor.

The policy of turning the other cheek is apt to be condemned nowadays, but if the matter is regarded solely from a material point of view it is more logical to do so than to expect to restore honorable relations between nations by persistently raising tariffs between the two countries.

#### PROTECTION UNCHRISTIAN

I have only one more word to say. A protectionist policy is absolutely un-Christian, because a protectionist seeks to prevent other countries shipping goods into Canada, while yet he seeks to ship his own goods to them. In other words, he reverses the golden rule, and does unto others as he would not that they should do unto him.

The result is a narrow and selfish international policy of tit for tat creating an unfriendly feeling towards neighboring nations which every individual would be ashamed to feel towards his own personal neighbors, and there can be no progress towards that ideal of "peace on earth and good will toward men," which should be the goal of every statesman, till the whole spirit of protection is utterly eradicated.

Upon the last occasion when the tariff question was submitted to the people in 1911, the protectionists made such appeals to the national prejudices and jealousy of America, that our friendly relations with her were almost destroyed, while during the war the exploitation by the same party of the racial differences between French and English almost resulted in the dismemberment of the Dominion.

Conservatism is a synonymous term for class or national protectionism, arrogance and exclusiveness, but there is evidence that the public now require higher ideals of statesmanship, and if they do, a tariff founded upon national selfishness and exclusiveness, must go.

That does not necessarily mean that we should immediately abolish all import duties without reference to its effect upon other nations. We may feel a change of heart towards a neighbor and decide to make restitution, but that is no reason why we should not make the restitution an inducement to him to make restitution to us on his part.

The United States has already made us an offer of reciprocity which Liberals were prepared to accept, but by an appeal to international jealousies the protectionists succeeded in causing it to be rejected, and a staggering blow has been dealt us in the form of the emergency Fordney tariff in consequence.

It is now the duty of Canada to make the first advance and frankly approach the United States for a reduction of her duties against us, and even for their abolition, upon the promise of a mutual exchange of favors. If we do this and appeal to the neighborly feeling of Americans and to their natural inclination for fair treatment and friendliness between nations, we shall very soon see the removal of damaging tariffs, such as the emergency Fordney tariff, because any movement which has a powerful moral influence behind it must eventually obtain its objective, whether in this country or in the States, and the jealousies between the two nations must soon diminish, and eventually disappear, with the duties

The better to ensure this, however, an organized public movement is required, and this cannot be effected unless every individual actively co-operates in spreading the gospel of free trade, and in stretching hands across the frontiers of Canada to our neighbors.

It is only by that spirit that we shall induce them to assist us in pulling down those tariff walls which mutual jealousy has constructed, and which are as dangerous to the moral tone of a nation as if they were built of steel and concrete and bristled with weapons of war

Unless every person takes a hand, however, the apathy of the many is bound to lose out to the energy organization, wealth and corruption of the few who batten on protective duties. Let us remember that they occupy a strategic position at the gates of Ottawa, and can only be dislodged by a massing of forces.

BICKERTON PRATT.

